



REPORT TO THE CONGRESS



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Improvements Needed In Army Supply Management And Stock Fund Activities In Korea B-166312

Department of the **Army**

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

770309/087445 JUNE 30, 1969



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, O. C. 20548

B-166312

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the improvements needed in
Army supply management **and** stock fund activities in Korea.
Our examination was made pursuant to the Budget and Ac-
counting Act, 1921 (31 U.S.C. 53), and the Accounting **and**
Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director,
Bureau of the Budget; the Secretary of Defense; **and** the Sec-
retary of the Army.

A handwritten signature in black ink, reading "James B. Abate". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVEMENTS NEEDED IN ARMY SUPPLY MANAGEMENT
AND STOCK FUND ACTIVITIES IN KOREA
Department of the Army 8-166312

DIGEST

WHY THE REVIEW WAS MADE

Prior General Accounting Office (GAO) reviews of supply operations by the Eighth U.S. Army in Korea disclosed that substantial management improvements were needed to ensure that using units obtained necessary supplies and materials on a timely basis. GAO, therefore, undertook this examination of certain aspects of supply and financial management practices relating to Army units in Korea to ascertain the current status of supply support.

FINDINGS AND INS

GAO found that needed materials were still not being obtained and stocked in Korea in the proper quantities. This was due, in great part, to inaccurate and incomplete financial and supply records. As a result, the Army found it difficult to forecast, with a reasonable degree of accuracy, the amount of funds needed to purchase proper quantities and types of material to support the military units in Korea.

Available funds were used, to a great extent, to obtain material in small quantities to meet individual requests of Army units in Korea instead of being used to obtain larger quantities for depot stocks. Requests for small quantities had to be forwarded to the United States and long delays were thereby encountered. Because of these conditions, the Eighth Army Depot Command in Korea was unable to provide timely support to troop units in Korea, and the inability to provide adequately and timely support to troop units in Korea could contribute to a low combat readiness condition.

GAO believes that improvements were needed in supply and financial management practices in Korea to provide an increased level of support to U.S. Army units in Korea.

OR SUGGEST

GAO's findings are in a body of report and
major section. It included with respect to
records:

--development of procedures for proper
management of supply systems (11).
Initiative of documentation

Tear Sheet

JUNE 30, 1965

--better surveillance over inventories of high-value and critical-type supplies (p. 13), and

--maintenance of accurate demand history files for items, to ensure that the proper quantities can be stocked (p. 14).

GAO suggested also that certain improvements be made in budgeting and funding procedures concerning the Army in Korea. (See p. 19.)

In addition, GAO pointed out that the Army's internal audit agency had performed only a limited amount of work pertaining to supply management in Korea. GAO therefore suggested that the Army Audit Agency increase the scope of its reviews in Korea. (See p. 22.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Deputy Assistant Secretary of the Army (Installations and Logistics) advised us of a number of actions taken or planned to effect improvements in the conditions noted in our examination. (See app. 11.) Specifically these were:

--improvements in procedures and controls over reconciliations,

--programs to improve inventory record accuracy,

--improvements in procedures for recording demand data, and

--improvements in financial management practices.

If these improvements are effectively carried out by the Army, it will have better controls over supply and financial management matters. GAO will evaluate the adequacy and effectiveness of actions taken or to be taken, in future reviews in Korea.

GAO has also been advised that the Army Audit Agency is placing increased emphasis on supply problems in Korea.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being submitted to the Congress because of continually expressed congressional interest in measures taken to overcome supply support problems affecting U.S. Armed Forces assigned overseas.

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LIST OF ABBREVIATIONS

AAA	Army Audit Agency
ASF	Army Stock Fund
CONUS	Continental United States
EADC	Eighth Army Depot Command
EUSA	Eighth United States Army
GAO	General Accounting Office
NICPs	National Inventory Control Points
O&MA	Operations and Maintenance, Army
R/O	Requisition objective
TASL	Theater authorized stockage list
USARPAC	United States Army, Pacific

D I G E S T

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FINDINGS AND CONCLUSIONS

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GAO believes that improvements were needed in supply and financial management practices in Korea to provide an increased level of support to U.S. Army units in Korea.

RECOMMENDATIONS OR SUGGESTIONS

GAO's suggestions are contained in the body of the report after each major section. They include, with respect to correction of supply records :

- development of procedures for proper reconciliation of supply documents between supply sources (p. 31) .

- better surveillance over inventories of high-Value and critical-type supplies (p. 13), and
- maintenance of accurate demand history files for items, to ensure that the proper quantities can be stocked (p. 14).

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INTRODUCTION

The General Accounting Office has made an examination into selected aspects of supply management and Army funding practices in the Eighth U.S. Army, Korea. This examination was undertaken as a result of a prior review of the responsiveness of the military supply systems to increased demands, in which we noted supply and procurement problems that apparently were due, in part, to funding restrictions put into effect by the Army. This matter and other matters were included in our report entitled "**Overall** Observations Regarding Responsiveness of Military Supply Systems," dated March 1967.

Our examination was directed toward those matters apparently needing attention, and we made no overall evaluation of supply and financial management practices of the Eighth U.S. Army (EUSA). The scope of our examination is shown on page 23.

In general, the Army supply system is operated under the stock fund concept in order to promote efficiency, economy, and fiscal restraint. Under this concept, organizational elements within the Army (such as divisions) are allotted funds each year to finance the acquisition of specified types of supplies and material. These funds, commonly referred to as consumer funds, are used to "buy" repair parts, subsistence, fuel supplies and similar items from the various segments of the Army Stock Fund. Major equipment items, such as vehicles, aircraft, and missiles, are not within the purview of the stock fund.

The stock fund is a revolving fund utilized to finance and maintain inventories at the major depot or "wholesale" levels of the supply system. With the funds derived from "sales" to consumers, the stock fund, in turn, "buys" material to replenish its stocks. Stock funds have been established within the Army to finance depot stocks in overseas locations such as Korea, as well as stocks maintained in depots in the United States,

The U.S. Army Pacific (USARPAC) Division of the Army Stock Fund (ASF) was established on January 1, 1964. The

home office of the division **is** located at Headquarters, USARPAC, in Hawaii; and subordinate commands, including EUSA, are designated as branch offices. The EUSA branch is operated as a separate entity for accounting and reporting purposes.

Shown below are statistics indicating the magnitude of stock fund operations in Korea.

	Fiscal year <u>1967</u>	Fiscal year <u>1968</u>
	(millions)	
Sales to EUSA units	\$161.7	\$142.9 ^a
Total investment	123.4	178.6 ^a

^aEstimated on the basis of data for 9 months ended March 31, 1968.

IMPROVEMENTS NEEDED IN SUPPLY AND

FINANCIAL MANAGEMENT IN KOREA

Improvements were needed in supply and financial management operations in Korea in order to provide more effective supply support to units of EUSA. In general, we found that supplies managed under the consumer fund/stock fund concept were not being obtained and stocked in depots in Korea in the proper quantities. As a result, many requisitions from customer units had to be forwarded to supply activities in the United States--a procedure that leads to substantial delays in providing necessary supply support and possibly to reduction in combat-readiness capabilities.

In our opinion, the reduced level of supply support in Korea was due primarily to the existence of inaccurate inventory and usage data. This, in turn, resulted in the inability of the Army to forecast with any reasonable degree of accuracy the financial requirements necessary to ensure that the proper quantities and types of material would be obtained for depot stockage.

Further details of our findings and conclusions are contained in the following sections of this report.

NEED FOR IMPROVED SUPPLY SUPPORT FOR ARMY UNITS IN KOREA

During the period covered by our review, Eighth Army depots were continually out of stock on a high percentage of the items authorized for stockage. For example, during the period January 1967 through May 1968, an average of 30 percent of the line items authorized for stockage were out of stock. The number of items out of stock ranged from a low of 30,023, or 26 percent of the total number authorized for stockage in January 1968, to a high of 51,154, or 35 percent of the items which should have been stocked in January 1967.

As a result of the shortages of depot stocks, only a relatively small percentage of requisitions from users could be satisfied. During the period January 1967 to May 1968, only 48 percent of the requisitions submitted to

Eighth Army depots (for stocked items) could be filled, compared with a USARPAC goal of a capability to fill 85 percent of requisitions from depot stocks. It was necessary to send high-priority requisitions that could not be filled in Korea to supply sources in continental United States (CONUS)—a practice which entails considerable delay in filling requisitions and which often results in reduced combat-readiness capabilities.

We noted also, that Eighth Army often could not or did not take timely steps to replenish the stock. On the average, no stock was on order for 43 percent of the items that were out of stock and less than sufficient quantities were on order for a substantial percentage of the other items authorized for stockage. This situation was apparently due to shortage of stock fund spending authority. The stockage position by month is shown in appendix I.

UNDERSTATED SPENDING AUTHORITY

Stock fund spending authority for a major command such as EUSA is estimated each year on the basis of the anticipated future needs of the customer units to be supported. The dollar amount provided to the stock fund is adjusted, however, to reflect the status of inventories on hand or on order (in transit). For example, if there are excess stocks on hand, the spending authority should be reduced below the total anticipated stock fund sales to customers on the theory that the excess stocks could be drawn down to meet customer requirements. On the other hand, if depot stocks are below required levels, the spending authority should be greater than the annual sales in order to permit the inventories to be increased to acceptable quantities. Because the spending authority is adjusted in this manner, it is essential for inventory records to be accurate so that funds can be provided in the proper amounts.

The EUSA stock fund was initially allotted a spending authority of only \$67.5 million for fiscal year 1967, compared with expected sales of \$142.1 million, because the stock records, at June 30, 1966, indicated that there were substantial quantities of excess stocks on hand or on order that could be utilized to satisfy customer requisitions. USARPAC, however, was apparently aware that the records

were erroneous, and permitted EUSA to use all the \$67.5 million spending authority during the first quarter of the year. Subsequently, USARPAC allotted an additional \$99 million, taken from other USARPAC commands, for the remainder of fiscal year 1967. However, no effort was made to identify and correct the overstated inventory records.

At June 30, 1966, EUSA estimated that its in-transit inventory alone was overstated by \$50 million and that its total asset position was overstated by about \$60 million. At December 31, 1966, it estimated that the inventory was overstated by about \$100 million. Some improvement was noted during the third quarter, but as of March 31, 1967, \$66.7 million of erroneous and excess assets were still recorded*

For fiscal year 1968, the initial allotment of spending authority for the EUSA stock fund was again understated because of the erroneous inventory records. In 1968, however, EUSA was not arbitrarily given additional spending authority as in fiscal year 1967. As a result, EUSA did not have adequate funds during the year to order depot replenishment stocks. In August 1967, for example, EUSA recomputed its requirements and planned to order replenishment stocks in September. The stated requirements for depot replenishment were about \$17.2 million, but only \$7.2 million was available to purchase these stocks. EUSA requested USARPAC to provide an additional \$10 million of spending authority, stating that replenishment stocks had not been ordered for several months. In denying the request, USARPAC directed EUSA to satisfy customer requirements by drawing down the high inventory. EUSA pointed out, however, that its records indicated that a large number of required items were out of stock and that customers were compelled to use an excessive number of high-priority requisitions for direct delivery from supply sources in the United States.

Actual stock fund purchases for the first 7 months of fiscal year 1968 amounted to \$26.7 million for replenishment stocks and an additional \$14.2 million to satisfy high-priority requisitions. At times during this period, up to 40 percent of the items authorized for stockage were below required levels; but they were not ordered because of

the shortage of spending authority. During February, March, and April 1968, EUSA was able to obligate \$40 million for replenishment stocks as a result of additional spending authority granted by the Department of the Army and through correction of invalid outstanding requisitions.

In spite of the additional funds available, by the latter part of May 1968, EUSA had again exhausted all stock fund spending authority, and it requested additional spending authority of \$6.6 million from WSARPAC. USARPAC denied the request, basing its decision on the fact that substantial quantities of material were on hand or on order,, As on other occasions, it appeared that USARPAC did not appropriately recognize EUSA's inaccurate asset records in arriving at its decision.

On May 30, EUSA instituted a constraint on new requisitions; suspended \$5 million of requisitions already processed; and again requested additional spending authority for emergency procurement. EUSA estimated that a total of \$15 million was required if normal supply operations were to be continued through June 1968.

The initial spending authority given Eighth Army for fiscal year 1968 was \$92.7 million, which we estimate was short by approximately \$44.4 million due to overstated inventories alone. The cancellation of invalid requisitions on CONUS sources in December 1967 resulted in the availability of an additional \$16.9 million. EUSA made further corrections in the value of requisitions outstanding in January 1968, which made another \$7.5 million available. In addition, and as a result of our inquiries, EUSA began an intensive effort to purify its remaining records of outstanding orders. We estimated that, as of April 30, 1968, the records contained about \$20 million of erroneous on-order and in-transit supplies. On June 28, 1968, EUSA officials informed us that, as a result of their review, additional corrections totaling about \$12 million had been processed.

Although the initial stock fund spending authority received by Eighth Army for fiscal year 1968 was only \$92.7 million, it eventually had over \$129 million available to procure material during the year, (This amount

excludes spending authority received for special projects after the Pueblo incident.) The manner in which the funds were initially obtained and subsequently made available, however, precluded logical and timely inventory management. Stocks were not ordered when needed and were not available in the depots to fill customer requisitions.

We recognize that EUSA made improvements in its records during fiscal year 1968 and that the spending authority computation for fiscal year 1969 was probably more accurate as a result of corrections of asset records. However, we believe that further effort is needed before any significant improvement in stock fund operations **can** be anticipated. The **most** significant problems affecting the inventory records relate to (1) validity of data on open requisitions, (2) accuracy of on-hand asset records, and (3) inaccurate usage data. These problem areas are discussed in further detail below.

Validity of data
relating to open requisitions

When requisitions are forwarded to supply activities in the United States, available stock funds must be obligated in order to preclude overexpenditures. If the requisitions are subsequently canceled or determined to be invalid, the funds can be deobligated and made available for the ordering of other stocks. The accuracy of open requisition data **therefore** has a direct bearing on the validity of the records relating to the funds available to obtain additional supplies.

When we initiated our review, we learned that EUSA had recently completed a limited review of unliquidated obligations, which had resulted in a deobligation of about \$900,000. The criterion used by EUSA was that any obligation which was over a year old would be considered invalid. In order to test the reliability of the obligation records as of the time of our review, we selected a statistical sample from the approximately 161,000 unliquidated obligations recorded as of April 30, 1968. Our analysis indicated that 31.75 percent of the items included in our test were invalid. Therefore, on the basis of accepted statistical sampling practice, we estimated that obligations recorded for material on order and in transit, amounting to a minimum of \$20 million as of April 30, 1968, were invalid and should have been removed from the records.

We were informed by officials at USARPAC and EUSA that the major cause of invalid data was the failure of personnel to identify the document numbers on incoming shipments and/or match them with outstanding requisitions. In addition, we found instances where requisitions for direct delivery to customers had been received without adjustment of appropriate records. We found also that obligations were still recorded, although (1) Federal Stock Numbers cited were nonexistent, (2) no dues-in were on record for the items on the requisitions, and (3) the requisitions had been previously canceled.

The most effective method of maintaining reliable records pertaining to open requisitions and obligations is to

periodically conduct back-order reconciliations between supply activities to determine whether requisitions are still valid and are properly recorded at each echelon of the supply system. We found, however, that, during the period July 1, 1966, to May 30, **1968**, neither EUSA nor USARPAC had adequately reconciled outstanding requisitions with supply sources in the United States.

In attempting the reconciliations, USARPAC experienced a number of problems, including inadequate control over the transmission of reconciliation documents from the national inventory control points (**NICPs**). Numerous reconciliation cards were lost and many others were received too late to be included. Despite considerable effort by systems analysts, programmers, and other individuals involved, **USARPAC** was unable to make a satisfactory reconciliation with its **CONUS** supply sources. Effective July 1, 1967, EUSA was assigned the responsibility for making supply action reconciliations. We noted that the adequacy of these reconciliations was seriously impaired by inadequate control over the reconciliation documents.

In order to test the reliability of the current due-in records, we reconciled 208 requisitions shown to be due in as of May 30, **1968**, from two CONUS NICPs. We found that the **NICPs** had no record for 117 of the requisitions and that **22** other requisitions had either been filled or canceled.

We believe that the problems experienced with back-order reconciliations were a significant cause of erroneous obligations which contributed to the shortage of stock fund spending authority. It is our opinion that, in order to correct these shortcomings, EUSA should take more aggressive action to ensure that it receives all reconciliation documents and that it must exercise more effective control over the reconciliation procedure.

When we brought these matters to the attention of the Secretary of Defense, we suggested that procedures be developed so that reconciliations would be made on a timely basis and proper controls would be maintained over records included in the reconciliations. The Deputy Assistant Secretary of the Army informed us that improvements in

procedures had resulted in a successful reconciliation of the records relating to outstanding requisitions of the Eighth Army with the records at supply sources in the United States during August and September 1968. He also informed us of a special program which was initiated in August 1968 to control certain material receipts which could not be initially related to records of shipments due in. He advised that procedures under this special program had become a part of the normal reconciliation program.

Inaccurate records relating,
to on-hand inventory

There were significant discrepancies between the inventory records maintained by EUSA and actual warehouse counts. This condition, which has been a problem of long standing in Korea, is of particular importance since accurate inventory records are essential for good supply management. Accurate inventory records are also important in stock fund budget preparation, since the value of assets on hand has a direct bearing on the amount of spending authority approved for any fiscal year.

Physical inventory efforts in EUSA depots have consisted of complete counts about every 2 years and special inventories of individual items whenever depot personnel could not locate stock that was shown as available on the stock records, i.e., warehouse refusals. The inventories taken by EUSA have indicated significant discrepancies between the warehouse counts and the inventory records, as shown by some recent physical inventories outlined below:

	<u>Ascom Depot</u>	<u>Camp Carroll Depot</u>
Date counted	Apr./May 1968	Dec. 1967
Line items counted	230,738	60,753
Book value of inventory	\$111,576,346	\$41,243,853
Dollar value of inventory losses	\$ 46,034,170	\$11,440,798
Dollar value of inventory gains	\$ 35,451,211	\$ 8,978,188
Number of line items with major adjustments over \$100	22,752	6,219
Number of line items with minor adjustments under \$100	102,349	17,436
Total number of line items with adjustments	125,101	23,655

As indicated above, more than 50 percent of the items counted at Ascom Depot--a major storage location in Korea--had to be adjusted. These adjustments resulted in increases of \$35.5 million and decreases of \$46 million in inventory value--or total adjustments of over \$81 million, equal to over 70 percent of the total value of the inventory on hand. On the average, during 1967 the inaccurate records resulted in a warehouse refusal rate of about 14 percent.

During our review we counted 73 line items stored at Camp Carroll and found that 24 did not agree with the quantity shown in the inventory records, although a complete inventory had been taken only 5 months earlier. After the December 1967 inventory at Camp Carroll was taken, the warehouse refusal rate declined, but it was again showing an upward trend at the time of our review. Both of these indicators point to a return to significant imbalances between physical and book inventories.

We brought the matter of the need for improvement in inventories to the attention of the Secretary of Defense in our preliminary report of October 22, 1968, and specifically suggested that (1) additional inventory effort be directed toward high-cost and critical-type supplies and (2) perpetual inventory records be adjusted on a timely basis. In response, the Deputy Assistant Secretary of the Army informed us of the actions taken or to be taken by the Eighth Army Depot Command to improve inventory accuracy. These actions included (1) the sending of a Logistical Assistance Team to Korea for a 6-month period starting in May 1968 to assist the command in the purification of depot records and their inventory program, (2) the taking of complete physical inventories at the four major storage locations in Korea, which were to start in January 1969 and were scheduled for completion in September 1969, (3) the use of statistical sampling methods in inventories once inventory records for all locations are corrected, (4) the emphasis on research of critical items in order to improve warehouse denial rates, and (5) the recent filling of 25 personnel spaces of the Inventory Management Center, EADC, which will permit research in depth into certain inventory transactions to preclude invalid adjustments to accountable records. Although we did not have an opportunity to appraise the actions taken or to be taken, we believe that, if they are properly carried out, they should result in improvements.

Inaccurate demand data

Requisitions for stock fund items are recorded in a demand file which provides the historical usage data to compute the required stockage levels. The base period for these computations is usually the 12-month period preceding the month in which the computation is made, and supply procedures provide for the reversal of demand data upon the cancellation of requisitions so that stock levels will not be overstated.

The demand files of EUSA contained invalid usage data on up to \$53 million worth of material because approximately 184,000 requisitions, canceled during a period of fund restriction in late 1967, had not been reversed. The use of these data in the computation of stockage requirements has overstated actual supply needs and may result in unnecessary procurements. In addition, valid requirements for other items may not be filled because limited stock funds are expended for items that are not needed.

We were informed by EUSA officials that the canceled requisitions were not withdrawn because they represented valid requirements for material which could not be "purchased" by EUSA units due to the shortage of consumer funds. Although we were unable to determine whether all the canceled requisitions were reordered by the using units after the fund restriction was lifted, for those that were reordered the usage data were duplicated.

We brought the above matters to the attention of the Secretary of Defense and suggested that (1) the importance of maintaining accurate demand history files be stressed and (2) demand data relating to canceled orders be removed from the files. The Deputy Assistant Secretary of the Army informed us that (1) automatic removal from the demand file would be effected for canceled items, (2) the demand data would be updated on a monthly basis, and (3) special attention would be given to all demand data used in the computation of requisitioning objectives. It appears that, if these new procedures are effectively implemented, improvements can be achieved.

Conclusions

In our opinion a major cause of the inadequate support provided to EUSA units was the prevalence of inaccurate and incomplete supply records which prevented the accurate forecasting of financial requirements for the stock fund. This condition tended to defeat the stock fund objective of prepositioning stocks required by troop units since EUSA was often unable to obtain supplies needed by troop units in advance of their demand. In addition, demand data recorded at the time of our review were significantly overstated and certain stockage requirements were thereby overstated. In the absence of action to reduce these invalid requirements, substantial quantities of unneeded supplies could be obtained.

In view of the actions taken or to be taken by the Army, however, we are not making any further suggestions for improvement. In our continuing reviews of military supply activities in the Far East, we shall inquire into the adequacy and effectiveness of these actions.

NEED FOR IMPROVED CORRELATION OF CONSUMER AND STOCK FUND BUDGETS

Our review of the EUSA Operations and Maintenance, Army (O&MA), and stock fund budgets showed a need for improvement in their preparation and correlation in order to improve the capability of the stock fund to adequately support customer units. Inadequate budget preparation and correlation were apparent since the O&MA budget understated the supply requirements and this resulted in a reduction of spending authority available to the stock fund. Furthermore, we believe that the financial management plan for allocating O&MA funds during fiscal year 1968 was unrealistic. In our opinion, these shortcomings have seriously diminished the ability of the stock fund to effectively achieve its objective of financing supplies in advance of actual need.

The EUSA receives an allotment of funds from the O&MA appropriation for the purpose of financing such items as the pay of civilian personnel, locally contracted services, and supplies procured from stock-funded sources. The stock fund, in turn, finances and controls inventories of

specified groups of common-type supplies and material. Military activities, utilizing O&MA funds allotted to them, purchase their current needs for such items from the stock fund which, in turn, replenishes its inventories with the funds derived from sales. The stock fund budget is therefore based to a large degree on the reliability of the O&MA budget for supplies. In addition, the rate at which the two budgets are expended should be consistent in order that stock-funded material will be on hand to meet consumer demands.

O&MA supply requirements

Our review indicated that the fiscal year 1968 O&MA budget did not reflect the actual supply requirements of EUSA troop units due to budget limitations imposed by higher commands and because EUSA did not adequately consider the past level of purchases ordered for direct delivery to using units. As a result, the spending authority available to the stock fund was reduced by about \$24 million.

The O&MA program and budget guidelines received by EUSA showed that approximately \$147 million of O&MA funds could be expected during fiscal year 1968. Within this fund limitation, the EUSA budget was developed and submitted to USARPAC in March 1967. Supply requirements exceeded the program limitations, and EUSA estimated that unfinanced requirements would total \$15.9 million.

We also noted that EUSA did not adequately consider the past level of purchases for direct delivery to using units when preparing its budget. During recent fiscal years large quantities of material were ordered from CONUS depots for direct shipment to using units in EUSA. The EUSA did not maintain accurate records of these transactions and, when the bills were received, was generally unaware of the extent of outstanding orders or of what the impact would be on the O&MA budget.

The inability of EUSA to determine the volume of requisitions it had passed to CONUS during the first half of fiscal year 1967, and the expected volume during the latter half of the year, resulted in an understatement of the base figure utilized in the computation of the fiscal year 1968

supply requirement. As a result the total supply requirement **was** understated by an additional amount of about \$15 million.

Financial management plan

Using units of **EUSA**, permitted to order supplies without limitation during the first 4 months of fiscal year 1968, actually expended about 71 percent of the total annual O&MA budget during that time. This period was followed by a 3-month period during which only high priority, health, and safety items were ordered due to a shortage of funds. The period of supply constraint was, in turn, followed by another period during which unit commanders attempted to fill the total material needs of their units. Because of these fluctuating demands, and because the stock fund spending authority was not allocated on a basis consistent with the rate of consumer fund expenditures, **EUSA** was unable to effectively plan for the procurement of needed stock.

A financial management plan is prepared by **EUSA** to allocate available funds throughout the year. The plan is updated monthly to show the capability of **EUSA** to meet known requirements based on available funds and to analyze problems which may be developing as a result of fund shortages. As of October 31, 1968, **EUSA** had spent or committed about 71 percent of the available O&MA budget for supplies for troop units. The stock fund, however, was authorized to spend only 25 percent of its budget during the first quarter of fiscal year 1968. Thus, because of the restrictions on the amount that the stock fund could spend, not all the demands for supplies by troop units could be met.

During October 1967, **EUSA** recognized the abnormally high expenditure/obligation rate; and, since USARPAC had previously indicated that there was little chance of obtaining additional funds for Korea, **EUSA** imposed severe restrictions throughout the command on the requisitioning of supplies by troop units during the period October 27, 1967, to January 27, 1968, in an effort to conserve remaining funds for high priority requirements. Intensive reviews of requisitions were undertaken to eliminate all but the most essential orders; authorized retention levels for supplies at the direct support units were reduced from 90 days to 60 days; cross-leveling of supplies was encouraged; requisitions for construction supplies were deferred and only

essential travel was authorized; 20 percent of the administrative vehicles were stored; and petroleum, oil, and lubricant allocations were reduced 20 percent.

Submission of requisitions by Army units was suspended except for high priority needs and justifiable health and safety items. The EUSA emphasized that the stringent controls, effective as of October 27, 1967, were mandatory to ensure that the limited O&MA funds would be applied against the highest priority requirements,

In addition to imposing restrictions on the submission of new requisitions, EUSA canceled requisitions being processed at the time which did not meet the new issue criterion. In total, the Eighth Army requested cancellation on about 226,000 requisitions for material valued at about \$75 million. We estimated that, of the total, about 184,000 requisitions valued at about \$53 million were actually canceled as a result of the project to conserve O&MA funds. (See p. 14.) During January 1968 the stringent requisitioning criterion imposed by EUSA was rescinded when additional O&MA funds were made available because of increased provocation on the part of North Korea.

We believe that the conditions described above present an almost insurmountable problem to stock fund supply managers in that arbitrarily imposed variations in demand severely reduce their ability to forecast and purchase needed supplies. Restrictions of these types create additional problems, since the periods of high demand create unusual workloads for administrative personnel, data processing equipment, and storage activities,

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In our preliminary report, we proposed that the Secretary of the Army consider the appropriateness of O&MA fund-control practices being followed, in terms of the impact on the stock fund budget. In our opinion, some means need to be devised for obtaining greater correlation between the funds for troop units (O&MA) and stock funds. We suggested that (1) additional consideration be given to unfunded requirements for troop units in determining stock fund spending authority, (2) procedures be devised for improving the

O&MA budget-estimating procedures to ensure that total Eighth Army requirements are included in the budget presentation, and (3) consideration be given to making a larger portion of the stock fund obligation authority available at the beginning of the fiscal year.

The Deputy Assistant Secretary of the **Army** informed us that the Army agreed that improvements were needed to more accurately estimate total troop unit requirements in the preparation of the stock fund budget. In summary, the Deputy Assistant Secretary of the Army advised us of regulations, rules, and guidance relating to the stock fund concerning (1) procurement of items for the support of troop units, (2) consideration of the availability of O&MA funds, and (3) increases and decreases in the stock fund because of changes in demand for items. The guidance appears to provide the means by which the stock fund should support requirements of the troop units, but the manner in which these regulations and guidance are carried out determines how effective the stock fund will be to support the requirements of the troop units.

The Deputy Assistant Secretary of the **Army** has also informed us that current O&MA budget estimating procedures adequately provide for the inclusion in the budget presentation of all known troop requirements. He explained that it appeared that the basic problem was the condition of the supply records which prevented the adequate forecasting of supply requirements for inclusion in the budget presentation. It was also explained that another problem had been the need for establishing and maintaining a system of financial controls and that such a system was developed by Eighth Army with the assistance of Headquarters, USARPAC, during the fourth quarter of fiscal year 1968.

The Deputy Assistant Secretary of the Army informed us further that the total annual stock fund program was available to Headquarters, **USARPAC**, at the beginning of fiscal year 1968. **USARPAC's** decision to enforce quarterly obligation funding was an attempt to maintain a degree of financial discipline not otherwise obtainable, based partly on the fact that stockage level requirements computed by **EUSA** appeared to be excessive.

Conclusions

We believe that the method of providing funds to troop units created additional problems in estimating the financial requirements of the stock fund. We found that the understatement of EUSA troop requirements, together with inadequate correlation of the rate of O&MA and stock fund expenditures, contributed adversely to effective supply operations. Although we recognize that economic and policy considerations do not always permit full funding for all military commands each year, we believe that improvements were needed to more accurately estimate total consumer requirements and that additional consideration should be given to unfunded troop unit requirements in order to more accurately estimate potential demand for supplies. This is particularly important in those instances where many apparently mission-essential requirements are unfunded at the beginning of a fiscal year.

We proposed that consideration be given to allocating a larger portion of stock fund spending authority at the beginning of the fiscal year in order that the stock position in Korea could be improved in anticipation of customer demands. In our opinion, this would reduce the number of direct deliveries required, lessen the administrative workload, enable the procurement of stocks in economical quantities, and permit an overall increased responsiveness to troop units.

However, in view of the comments furnished to us by the Deputy Assistant Secretary of the Army concerning actions taken and the basis for existing financial management procedures and practices, we are not making further suggestions for improvement. We will, however, at a later time examine into the adequacy and effectiveness of actions taken.

INTERNAL REVIEW OF SUPPLY ADMINISTRATION

We examined into the reviews performed by the Army Audit Agency (AAA) in the areas of supply and financial management activities in Korea and found that AAA had done only a limited amount of work in these areas. AAA representatives stated that the audit effort was being

concentrated on tactical units and other elements of EUSA, such as the Field *Army* Support Command.

AAA representatives stated that, during a review of material shortages in Eighth *Army*, the AAA representatives became aware of the general unreliability and inaccuracy of EUSA records. They stated that they had proposed several functional-type reviews covering the areas of stock control, stock management, stock fund operations, and storage activities; but approval for performing these reviews had not yet been received at the time of our examination in Korea ,

On the basis of our review conducted within some of these functional areas and because combat readiness is directly affected by supply support, we believe that additional AAA reviews of EUSA functions are warranted and should be approved. In March 1969 we were informed by an official of the Department of the *Army* that AAA in Korea had been granted approval for making these reviews. We were also informed that certain reviews had been made and other reviews were planned concerning supply and financial activities,

SCOPE OF EXAMINATION

Generally, our examination covered the period July 1, 1966, through May 31, 1968. The primary emphasis was on examining into the reliability of supply records used to forecast and support the financial requirements for parts and supplies. We reviewed Army policies and procedures prescribed in applicable regulations and examined into procedures followed by Eighth U.S. Army in requesting and allocating funds for the stock fund branch and for troop units. The examination was performed at the following Army activities:

- Headquarters, U.S. Army Pacific, Honolulu, Hawaii
- Eighth U.S. Army, Seoul, Korea
- Eighth Army Depot Command, Taegu, Korea
- Various Eighth Army troop units

Additional work was performed at the following inventory control points:

- U.S. Army Aviation Systems Command, St. Louis, Missouri
- U.S. Army Missile Command, Huntsville, Alabama

APPENDIXES

EUSA STOCK SHORTAGES BY n o m

<u>Month</u>	<u>Items authorized for stockage</u>	<u>Items with on- hand and on- order quantity below stock- age objective</u>	<u>Percent of authorized stockage items</u>
Jan, 1967	144,714	58,340	40.3%
Feb .	143,925	59,442	41.3
Mar .	140,349	54,986	39.2
Apr .	139,045	56,213	40.4
May	140,021	61,961	44.3
June	140,846	59,414	42.2
July	127,651	12,214	9.6
Aug .	128,157	46,302	36.1
Sept .	117,378	46,579	39.7
Oct.	117,469	47,275	40.2
Nov .	117,309	32,096	27.4
Dec .	116,588	32,097	27.5
Jan. 1968	115,488	30,076	26.0
Feb .	112,658	32,607	28.9
Mar.	112,649	8,934	7.9
Apr .	111,764	40,622	36.3
May	<u>112,876</u>	<u>47,669</u>	<u>42.2</u>
Average	125,817	42,755	34.0%

Authorized stockage items at zero balances	Percent of authorized stockage items	Items at zero balance with no material on order	Percent of authorized stockage items
51,154	35.3%	20,554	14.2%
49,427	34.3	23,061	16.0
43,676	31.1	16,507	11.8
40,550	29.2	17,108	12.3
41,868	29.9	20,807	14.9
42,902	30.5	20,178	14.3
36,012	28.2	3,745	2.9
37,536	29.3	15,446	12.1
40,124	34.2	21,098	18.0
38,852	33.1	23,027	19.6
34,159	29.1	13,950	11.9
31,092	26.7	13,913	11.9
30,023	26.0	11,330	9.8
30,316	26.9	12,814	11.4
33,017	29.3	3,104	2.8
30,881	27.6	18,308	16.4
<u>34,239</u>	<u>30.3</u>	<u>22,996</u>	<u>20.4</u>
37,990	30.2%	16,350	13.0%



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D.C.

6 FEB 1969

Mr. C. M. Bailey
Director, Defense Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Bailey:

This is in response to your letter of 22 October 1968 to the Secretary of Defense requesting comments on your draft report titled: "Need for Improvements in Supply Management and Stock Fund Practices Relating to Army Units in Korea." (OSD Case #2847)

The Department of the Army position with respect to the report is inclosed. This reply is made on behalf of the Secretary of Defense .

Sincerely yours,

A handwritten signature in dark ink, appearing to read "G. B. Russell", is positioned above the typed name.

G. B. Russell

Deputy Assistant Secretary of the Army (I&L)
Supply, Services and Installations

1 Incl:
Army Position
Statement

ARMY POSITION STATEMENT
TO
GAO **DRAFT** REPORT SM-108, "NEED **FOR** IMPROVEMENTS
IN SUPPLY MANAGEMENT AND STOCK FUND PRACTICES
IN **KOREA**''
(OSD Case Number **2847**)

I. POSITION SUMMARIES

A. GAO Position Summary

The GAO alleged that improvements are needed in supply management practices and stock fund operations in Korea in order to provide an increased level of support to Eighth U. S. Army (**EUSA**) units. The existence of inaccurate, inadequate and incomplete data has resulted in an inability in the Army in Korea to forecast and support, with a reasonable degree of accuracy, the financial requirements necessary to assure that the proper quantities and types **of** materiel needed by troop units are obtained in advance of actual needs. Such funds were being used largely to finance the acquisition of stocks to fill individual customers' requisitions, rather than for depot stockage. The inability to provide adequate and timely support to troop units in Korea can contribute to a low combat readiness condition.

B. Army Position Summary

The Army has recognized **for** some time the problems existing because of inaccurate, inadequate and incomplete logistical data in the records at the ASCOM depot and other supply support activities in Korea. A Logistical Assistance Team consisting of **40** military personnel, similar to the Project Counter **Teams** used in Vietnam, arrived in Korea on 21 May 1968, for a six month period, to assist the command in the purification of depot records and their inventory program. The imposition **of** quarterly obligation authority control is an attempt to enforce a degree of financial discipline not otherwise attainable. There are no indications that this control impacts on combat readiness. In fact, the findings of the GAO Report with respect to overstated requisitioning objectives and asset records appear to support the need for these additional financial controls.

II. ARMY POSITION ON GAO RECOMMENDATION

A. That the Secretary of the Army require appropriate official of the Eighth Army to institute a positive program to improve and correct the basic supply records of the EADC including the following:

- (1) Develop procedures to perform due-in reconciliations on a timely basis and maintain proper control over the records included in the reconciliation.

Army Comments

Recent improvements in backorder reconciliation procedures resulted in successful reconciliations of outstanding requisitions with CONUS NICP's during August and September 1968. This resulted in improved batch control procedures insuring complete and timely response on all unmatched items, and prevention of cancellation of valid requisitions by CONUS NICP's. A special program was initiated in August 1968 to review all receipts processed as "not due-in". As these transactions were identified by researching the due-in and obligation records, they were corrected by applying the receipt to the proper requisition document number. A special control was established in this project to assure its accomplishment by January 1969. However, the procedures are now part of the normal program.

- (2) Stress the importance of maintaining accurate demand history files and insure all cancelled orders are removed from the files.

Army Comments

Requisitions which are cancelled are now automatically backed out of the demand data file. Also, demand data is now being updated monthly. Review and adjustment of demand history listings by commodity managers was completed on 30 November 1968. Results of this review were used to update the November file. Special attention is now devoted to all demand data used in computation of Requisitioning Objectives (RO's). A team of supply managers from HQ, USARPAC assisted EADC in the final evaluation of these RO computations.

- (3) Direct additional inventory effort to high-cost and critical-type supplies and adjust the perpetual inventory records on a timely basis.

Army Comments

Action taken or to be taken by EADC to improve on-hand inventory accuracy are:

- (a) 100 percent inventories of all **EADC** Storage locations segmented by Federal Supply Class in accordance with the following schedule:

<u>Location</u>	<u>Date</u>
Pusan	2 Jan - 5 Jan 69
Camp Carroll	6 Jan - 25 Feb 69
Inchon	15 Apr - 15 Jul 69
ASCOM	16 Jun - 16 Sep 69

- (b) Use of statistical sampling methods in inventories once inventory records ~~for~~ all locations are corrected.

- (c) Emphasis on research of critical items in order to improve warehouse denial rates.

- (d) Recent filling of four Department of the Army (DAC) and twenty-one personnel spaces in the EADC Inventory Management Center will permit research in depth into both in-float documents and questionable transactions to preclude invalid adjustments to accountable records.

- (e) The Logistical Assistance Team consisting of **40** military personnel, similar to the Project Counter Teams used in Vietnam to assist the command in the purification of depot, reported the following accomplishments:

Number of depot locations surveyed	90,679
Number of depot locations added	32,469
Number of depot locations deleted (because of no stocks)	9,061
Number of depot locations deleted (because of consolidation of stocks)	6,963

B. That the Secretary of the Army consider the appropriateness of **OMA** fund control practices currently being followed in terms of the impact of these practices on the stock fund budget. Some means need to be devised to obtain greater flexibility between the funds for troop units and stock funds. GAO suggested that:

- (1) Additional consideration be given to unfunded requirements of the troop units in preparation of the stock fund budget.
- (2) Procedures be devised to improve the OMA budget estimating procedure to insure that total EUSA requirements are included in the **OMA** budget.
- (3) A larger portion of the stock fund obligation authority be made available at the beginning of the fiscal year.

Army Comments

(a) The Army agrees that improvements are needed to more accurately estimate total consumer requirements in the preparation of stock fund budgets. DOD regulations governing stock fund operations, however, preclude budgeting or procuring with stock funds items for support of customer operations that are not expected to be demanded by these customers because of limited consumer funds. Program guidance published by **DA** for use in preparation of **stock** fund budgets requires that consideration be given to command operating budgets **for** materiel planned to be purchased from the stock fund. Stock Fund Program Guidance directs that sales estimates must be consistent with the fund availability contained in the command budget estimates. Only by giving careful consideration to such relationships between estimated stock fund sales and consumer fund budgets which ~~finance~~ these sales can the purchasing power of the stock fund be maintained. Rules governing execution of Army Stock Fund Operating Programs recognize the fact that changes may occur during the year in consumer fund programs. The Stock Fund Program document states that additional funds will be provided by review officials to meet increases in demands and that conversely, management is expected to take action to reduce use of funds when demands decrease. Under this provision, the stock fund can react and ~~obligational~~ authority is provided to maintain stock levels and to meet projected issues (demands).

(b) It is considered that current O&MA budget estimating procedures do adequately provide for the inclusion in the budget presentation all known troop unit requirements. The present budget system places a high priority of funding for troop unit requirements which impact on unit readiness. The basic problem of supply management for Army units in Korea appears to be associated with the condition of the supply records which have prevented adequate forecasting of supply requirements for inclusion in the budget presentation. Another real problem has been to establish and maintain a system of financial controls which would permit the application of resources to the functional areas for which financing was projected. Such a system of cost ceiling control was developed by **EUSA** with the assistance of Headquarters, USARPAC during the fourth quarter fiscal 1968.

(c) The total annual theater stock fund program **was** available to Headquarters, U. S. Army, Pacific at the beginning of FY 68. The decision to place the subordinate commands on a quarterly obligation funding basis **was** made by CINCUSARPAC. Factors contributing to this decision were a high on-hand and on-order asset position coupled with the fact that dollar value of Requisitioning Objectives was extremely high and not supportable by the projected levels of sales to customers. Had new orders been placed against these inflated levels, additional excesses would have been generated and funding to sustain **this** level of operation could not have been justified. The imposition of quarterly obligation authority control is an attempt to enforce a degree of financial discipline not otherwise attainable. The findings of the GAO report with respect to overstated requisitioning objectives and asset records appear to support the need for these additional financial controls.

III. OTHER COMMENTS

None.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF
DEFENSE **AND** THE DEPARTMENT OF THE ARMY
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>			
SECRETARY OF DEFENSE:			
Melvin R. Laird	Jan. 1969	Present	
Clark Clifford	Mar. 1968	Jan. 1969	
Robert S. McNamara	Jan. 1961	Feb. 1968	
DEPUTY SECRETARY OF DEFENSE:			
David Packard	Jan. 1969	Present	
Paul H. Nitze	July 1967	Jan. 1969	
Cyrus R. Vance	Jan. 1964	June 1967	
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):			
Barry James Shillito	Jan. 1969	Present	
Thomas D. Morris	Sept. 1967	Jan. 1969	
Paul R. Ignatius	Dec. 1964	Aug. 1967	
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):			
Robert C. Moot	Aug. 1968	Present	
Robert N. Anthony	Sept. 1965	Aug. 1968	
COMMANDER IN CHIEF, U.S. PACIFIC COMMAND			
Adm. John S. McCain, Jr.	July 1968	Present	
Adm. Ulyssess J. S. Sharp, Jr.	July 1964	July 1968	

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF
DEFENSE AND THE DEPARTMENT OF THE ARMY
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT (continued)

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
<u>DEPARTMENT OF THE ARMY</u>			
SECRETARY OF THE ARMY:			
Stanley R. Resor	July 1965	Present	
Stephen Ailes	Jan. 1964	July 1965	
UNDER SECRETARY OF THE ARMY:			
Thaddeus R. Beal	March 1969	Present	
David E. McGiffert	July 1965	Mar. 1969	
ASSISTANT, SECRETARY OF THE ARMY (INSTALLATIONS AND LOGISTICS):			
Vincent P. Huggard (acting)	Mar. 1969	Present	
Dr. Robert A. Brooks	Oct. 1965	Feb. 1969	
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT):			
Eugene M. Becker	July 1967	Present	
W. Brewster Kapp	June 1965	June 1967	
COMPTROLLER OF THE ARMY:			
Lt. Gen. F.C. Sackton	Aug. 1967	Present	
Lt. Gen. F.C. Chesarek	Aug. 1966	July 1967	
Lt. Gen. C.D. Hackett	Aug. 1963	Aug. 1966	
CHIEF OF STAFF:			
Gen. William C. Westmoreland	July 1968	Present	
Gen. Harold K. Johnson	July 1964	July 1968	
DEPUTY CHIEF OF STAFF FOR LOGISTICS:			
Lt. Gen. Jean E. Engler	July 1967	Present	
Lt. Gen. Lawrence J. Lincoln	Aug. 1964	June 1967	

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF
DEFENSE AND THE DEPARTMENT OF THE ARMY
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT (continued)

		<u>Tenure of office</u>	
		<u>From</u>	<u>To</u>
DEPARTMENT OF THE ARMY (continued)			
COMMANDER IN CHIEF, U.S. ARMY, PACIFIC:			
Gen. Ralph E. Haines, Jr.	July 1968	Present	
Gen. Dwight E. Beach	Sept. 1966	June 1968	
COMMANDING GENERAL, UNITED STATES FORCES, KOREA:			
Gen. Charles H. Bonesteel III	Sept. 1966	Present	
Gen. Dwight E. Beach	July 1965	Sept. 1966	
COMMANDER, EIGHTH ARMY DEPOT COMMAND:			
Col. A. G. Baker	Nov. 1966	Present	
Col. L. A. Parks	June 1966	Nov. 1966	